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State Auditor
Neria Douglass JD, CIA
Report to the Joint Standing Committee on Agriculture
March 5, 2007

Chairman Nutting, Chairwoman Pieh, and Honorable Members of the Committee.

INTRODUCTION My name is Neria Douglass: I am the Maine State Auditor. You asked me to review certain federal accounts of the Maine Department of Agriculture (MDA) for inspection of eggs and inspections of fruit and vegetables in Maine. Mary Gingrow-Shaw, CPA, CIA, Senior Audit Manager at the Maine Department of Audit, performed this review.

QUESTION You were concerned that this was a “slush” fund with a large balance, approximately \$216,000 as of March 31, 2006, and replacement inspector costs billed to the federal program but not reimbursed to the General Fund. The accounts in question are in the Federal Expenditures Fund 013, specifically 013 01A 0393 and the Special Revenue Fund 014, specifically 014 01A 0860.

SUMMARY

1. Were any account expenditures for purposes other than inspection of eggs and fruit? No
2. Were inspector salaries paid from the account? Yes
3. Were federal reimbursements claimed for replacement inspector salaries? Yes
4. Was the General Fund reimbursed for replacement inspectors’ work? No
5. How much General Fund money was paid for replacement inspectors?

From FY 2001 to 2006, \$114,000 was paid from the General Fund to replacement inspectors, and \$8,500 was paid from the Other Special Revenue Fund to replacements.

6. What else is in the accounts?

Accumulated sick and vacation benefits for the inspectors are in the accounts. Those funds might not follow the employee who earned them without direction from the Legislature.

INVESTIGATION

To gain an understanding of the Federal and State Inspection Program we reviewed relevant laws and cooperative agreements with the US Department of Agriculture (USDA). We spoke to individuals inside and outside the MDA. We examined revenue, expenditures and cash balances of the two accounts for FY 2001 through 2006. We reviewed federal reimbursements for staff

identified to the program, and determined the amount of federal reimbursement for replacement inspectors. We reviewed the MDA report from May 2005 and newspaper articles on the topic.

Egg inspectors must be federally licensed, and eggs must be inspected promptly to maintain quality. Licensed inspectors are sometimes needed when current inspectors are sick or unavailable. A cooperative agreement between the USDA and the MDA allows the latter to obtain reimbursement from federal funds for replacement inspector services. The department maintains a special account for this purpose: all reimbursement checks for the program are credited to this account, and virtually all funds in the account are from federal reimbursements. This includes salary and benefits (sick leave and vacation time) of program staff, as well as salary costs of replacement inspectors, who were employed primarily by the General Fund. Between FY 2001 and 2006, \$114,000 was billed for services of replacements paid by the General Fund and \$8,500 for others paid by the Special Revenue Fund. During that period, 99% of expenditures were for payroll costs of inspectors and their supervisors, except in 2002, 97% of costs were payroll and 3% were indirect charges (office space and central accounting services).

The MDA maintains another account in the Other Special Revenue Fund to record activity of the fruit and vegetable inspection program. Two major sources of revenue fund this account: inspection fees and transfers from the potato quality inspection account. Fees from producers ranged from 61% to 71% from FY 2001 to 2006. Transfers from the potato fund averaged 29% during the period. Expenditures were primarily for payroll. Some for “clerical support services,” were explained to be for temporary vegetable inspectors. For FY 2001 to 2005, expenditures exceeded revenue and the non-lapsing balance at the end of 2005 was \$57,250. As of mid-June 2006, revenues have exceeded expenditures by approximately \$92,000, resulting in a balance of approximately \$149,000, which represents less than 60 days working capital for the account, which had expenditures of \$895,000 in 2006.

Both federal accounts are non-lapsing at the end of the year. The MDA claimed that authority to keep General Fund costs as “state assistance” comes from 7 MRSA §441-A which states:

“Consistent high quality of Maine agricultural products is essential to the maintenance and expansion of Maine markets and to the success of agriculture in the state. In order to assure that those quality standards are properly adopted, enforced and promoted, the Legislature finds it is necessary to provide state assistance in these aspects of marketing.”

However, the statute does not seem to require the accumulation of costs reimbursable to the General Fund. Instead, the federal-state cooperative agreements provide that the MDA shall furnish office space, hire and train inspectors, maintain records and report. Nothing in them requires accumulation of replacement inspector costs that were actually paid by the General Fund, and nothing in them prohibits reimbursement to the General Fund. Thus, it is hard to understand how this statute authorizes the accumulation and retention of costs paid by the General Fund, which would lapse at year-end. We believe this situation presents a policy question for this Committee.